



Nunavut Liquor Commission ANNUAL REPORT, 2012-13



TABLED IN THE LEGISLATIVE ASSEMBLY
BY THE HONOURABLE KEITH PETERSON, MLA
MINISTER OF FINANCE

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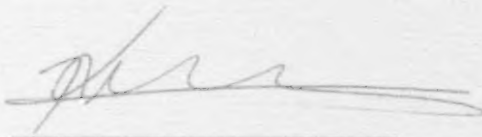
LETTER OF TRANSMITTAL

The Honourable Edna Ekhivalak Elias
Commissioner
Government of Nunavut

Dear Madame,

I have the honour of presenting the Annual Report for the Nunavut Liquor Commission covering the period April 1, 2012 to March 31, 2013.

Respectfully submitted,

A handwritten signature in dark ink, appearing to read 'Keith Peterson', with a long horizontal flourish extending to the right.

Hon. Keith Peterson
Minister of Finance
Minister Responsible for Liquor

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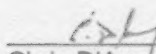
LETTER TO THE MINISTER


The Honourable Keith Peterson
Minister of Finance
Minister Responsible for Liquor

Nunavut Liquor Commission 2012–13 Annual Report

Pursuant to Subsection 61(1) of the Liquor Act, we are pleased to submit the 2012 – 2013 Annual Report for the Nunavut Liquor Commission for the fiscal year ended March 31, 2013.


We wish to express our thanks to all our staff for all their support and contribution to the progress of the Nunavut Liquor Commission during this past year.



Chris D'Arcy
Deputy Minister

Marion Love
Director of Nunavut Liquor Commission

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Nunavut Liquor Commission 2012-13 Annual Report

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NUNAVUT LIQUOR COMMISSION

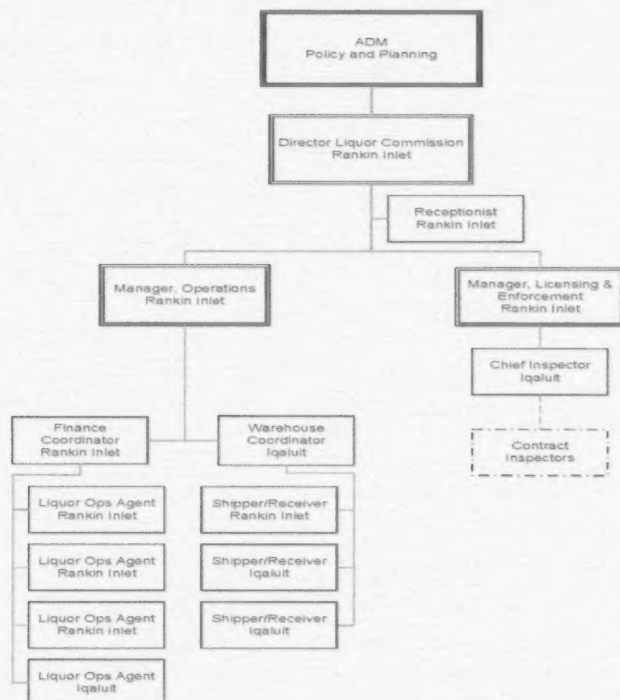
ORGANIZATIONAL OVERVIEW

The Nunavut Liquor Commission (the Commission) is charged with operating liquor stores, purchasing, selling, classifying and distributing alcohol beverage products in Nunavut, as well as administration of Part II of the *Liquor Act* (the Act). The Commission follows the reporting stipulations outlined in Part II of the Act and Part IX of the *Financial Administration Act*.

The Commission, in exercising its powers and performing its duties is bound by the Liquor Act to the direction of the Minister. The Commission is headed by a Director who reports to the Minister through the Deputy Minister of Finance, as shown in the Organizational Structure Chart below. The Director oversees a staff of 13 employees, divided between Rankin Inlet and Iqaluit, including the Manager of Licensing and Enforcement and inspectors in Iqaluit and Rankin Inlet. The Commission was without a Director or Manager for three quarters of the fiscal year.

With its headquarters in Rankin Inlet, the Commission manages its retail and wholesale business through two distribution warehouses; one in Rankin Inlet and the other in Iqaluit. The Commission also oversees two permit agent offices on contract in Cambridge Bay and Kugluktuk, while providing permitting services in-house in Rankin Inlet and Iqaluit. The permit agent offices provide, for a fee, import permits to allow individuals to bring in liquor from outside Nunavut.

ORGANIZATIONAL STRUCTURE



LIQUOR RETAILING IN THE TERRITORY

Nunavut's geographical and infrastructure challenges make liquor retailing in the Territory unconventional in the Canadian context. With a total population of approximately 33,000 people, the major challenge for liquor retailing in Nunavut is the need to service a very limited market, connected only by air and limited seasonal sea access, and spread out over a fifth of Canada's land mass. Among the many characteristics that set Nunavut's liquor distribution system apart from other jurisdictions in Canada, is its central processing structure. The Commission currently does not operate any liquor stores and all liquor orders are processed through the Commission's headquarters in Rankin Inlet and distributed via air cargo from either of the Commission's warehouses. Licensed outlets are the exception, where their purchases are picked up at the closest Commission warehouse.

To take advantage of the Government of Nunavut's greater purchasing power, the Commission's entire liquor inventory is purchased on behalf of the Commission by the Department of Community and Government Services' (CGS) Procurement Division.

While every effort is made to maximize warehouse space and accommodate as much inventory as possible through searift, capacity issues with the Iqaluit warehouse necessitate a small air cargo resupply each spring to supply license holders until the shipping season starts again in the summer.

As a matter of policy, the Procurement Division of CGS attempts to buy all products directly from breweries and distilleries. Due to small order volumes, some products are purchased through the Société des Alcools du Québec (SAQ) or the Liquor Control Board of Ontario (LCBO).

The Commission uses a flat rate per litre mark-up in the pricing of alcohol beverage products. An administration fee of \$0.27 per litre is also applied. Current mark-ups per litre are as follows:

Spirits	\$ 26.11
Wine	\$ 7.96
Coolers	\$ 3.27
Beer	\$ 2.37

The Commission's necessary reliance on air cargo for the distribution of liquor orders means that liquor purchases in Nunavut are faced with logistical considerations and additional freight and marshalling costs not commonly experienced across Canada.

One logistical hurdle concerns the payments of liquor orders through the Commission. At the present time certified money instruments that include Money Orders, Northern Store money transfers and/or Cash Link Card (up to Dec 2012), certified cheque, bank draft, or direct deposit to the Commission's bank account are all accepted as payment vehicles.

The Commission also accepts credit cards (VISA, MASTERCARD and AMEX since Sept 2012) for product payment, and residents of Iqaluit and Rankin Inlet are also able to use their debit cards for product payment. Once verified payment has been received, the Commission ensures the product order is picked, packaged, and delivered to the airlines for delivery to its destination.

Over and above the product price, there is an additional charge for handling and local cartage of \$10.00 (plus GST) per order, and a bottle deposit return fee. The shipment is then sent freight collect to the customer. Freight costs vary, depending on distance, community, and carrier used.

Flight schedule structures serving Nunavut impose a de facto waiting period on all liquor purchases in the Territory (Licensees and holders of Special Occasion Permits excepted). Iqaluit residents must purchase their alcohol from the Rankin Inlet warehouse and conversely Rankin Inlet residents must purchase their alcohol from Iqaluit. All other eligible residents of Nunavut may place their order at either facility. This measure ensures there are no direct sales of liquor to the public anywhere in Nunavut, except in licensed establishments.

NUNAVUT LICENSING AND ENFORCEMENT

LICENSING AND ENFORCEMENT ACTIVITY REPORT

All distribution of alcohol beverage products authorized by liquor licenses and special occasion liquor permits issued under the Act are subject to inspection by the Licensing and Enforcement branch of the Commission. These inspections, also known as spot checks, are to ensure adherence to the Act and Regulations. Conditions pertaining to fire risk, health and safety infractions, and the use of tobacco in and around premises licensed for the sale of liquor are also liable to inspection.

Inspections are carried out by trained contract personnel. Any infractions observed are brought to the attention of the Chief Inspector in Iqaluit, who reports to the Manager of Licensing and Enforcement at the Commission headquarters in Rankin Inlet.

Infractions are discussed with the Department of Justice and, where warranted, the licensee must attend a show cause hearing before the Nunavut Liquor Licensing Board, with the Department of Justice acting as prosecutor. Such hearings may result in the imposition of restrictions in accordance with the Act, and may result in the suspension of a license.

The Commission keeps a roster of three contract inspectors in Iqaluit and one inspector in Rankin Inlet. Regularly scheduled inspections were carried out with more focus on the busier evenings through the week and weekend.

The Commission spent \$21,270 on spot checks at a rate of \$30 per inspection. There were 709 total inspections for 2012-13.

Nunavummiut may also make a purchase through an import permit, which allows them a wider range of options for both selection and price. Should they choose to import their alcohol beverage product from outside the territory, individuals must purchase an import permit from one of the four permit agent offices in Cambridge Bay, Kugluktuk, Rankin Inlet or Iqaluit.

An import permit is required to import quantities greater than 1,140 ml of spirits or wine or 4,260ml of beer (twelve 355 ml containers). The current import permit fee structure is as follows:

Table A: Fee Structure	
Import Permit Fees	
Spirits	\$3.75 per litre
Wine	\$2.00 per litre
Coolers	\$0.59 per litre
Beer	\$0.56 per litre

In communities governed by an Alcohol Education Committee (AEC), individuals apply to their community's AEC to seek approval to bring beverage alcohol into the community. The AEC may place restrictions on the purchase or even deny the application (see Table 1 for liquor restriction

systems and Table 2 for community system breakdown). Once an individual has obtained permission from the community AEC an order may be placed or a permit purchased.

One final aspect of liquor retailing in Nunavut is the Commission's effort at encouraging recycling in the Territory through container deposits. The Commission places a container deposit on all liquor purchases made, whether bottle, can, or other, and is prepared to accept returned empty liquor containers at any established recycling centre. A container return centre only exists in Iqaluit. The Commission charges \$0.29 for bottles and \$0.14 per can and gives back \$0.25 per bottle and \$0.10 per can.

Table 1. Nunavut's Liquor Restriction Systems

The *Liquor Act* provides Nunavummiut with a ranked liquor restriction structure based on four systems, ranging from standard access to total exclusion. Communities choose their appropriate system by plebiscite. Described under section 48.2 of the Act these systems are:

1. An unrestricted system in which the community is subject only to the general liquor laws of Nunavut;
2. A restricted quantities system in which, in addition to the general liquor laws, the quantity of liquor that a person may purchase is limited;
3. A committee system, in which a locally elected alcohol education committee decides:
 - who may consume, possess, purchase or transport liquor in the settlement, municipality or area,
 - who may import liquor into the settlement, municipality or area under the Act,
 - the amount of liquor that a person may possess, purchase, transport or import in the settlement, municipality or area,
 - who may apply for a wine permit in the settlement, municipality or area and the amount of wine that a person may apply to make, and
 - who may brew beer for personal or family consumption in the settlement, municipality or area and the amount of beer that a person may brew,
4. A prohibition system, which prohibits the consumption, possession, purchase, sale or transport of liquor within the settlement, municipality or area.

Table 2. Breakdown Of Communities By Their Chosen Systems:

Unrestricted	Committee	Prohibited
Cambridge Bay	Arctic Bay	Arviat
Grise Fiord	Baker Lake	Coral Harbour
Iqaluit	Cape Dorset	Gjoa Haven
Rankin Inlet	Chesterfield Inlet	Kugaaruk
Taloyoak	Clyde River	Pangnirtung
	Hall Beach	Sanikiluaq
	Igloolik	
	Kimmirut	
	Kugluktuk	
	Pond Inlet	
	Qikiqtarjuaq	
	Repulse Bay	
	Resolute Bay	
	Whale Cove	

MANAGEMENT DISCUSSION AND ANALYSIS AND UNAUDITED SCHEDULES

Fiscal 2012-13 was the Commission's seventh full year of operation, since taking over responsibility for the public agency from the Government of the Northwest Territories in October of 2004. The Commission's functions had been managed by the NWT Liquor Commission under a service agreement since 1999.

Overall, the Commission sold 618,198 liters of alcohol, in Nunavut worth \$5,674,000. Table 3 illustrates the breakdown of the Commission sales by category of alcohol.

Table 3: Gross Product Sales						
	2012-13		2011-12		Change vs 2011-12	
	Litres	\$000s	Litres	\$000s	Litres	\$000s
Spirits	42,677	1,710	44,976	1,784	(2,299)	(74)
Wine	38,505	629	34,945	580	3,560	49
Cooler	10,386	86	11,549	95	(1,163)	(9)
Beer	526,630	3,249	550,319	3,368	(23,689)	(119)
Total	618,198	5,674	641,789	5,827	(23,591)	(153)

Table 4: Sales by Location in Litres							
Litres	Iqaluit		Rankin Inlet		Total		Change
	2012-13	2011-12	2012-13	2011-12	2012-13	2011-12	
Spirits	27,494	28,974	15,183	16,002	42,677	44,976	(2,299)
Wine	28,940	25,589	9,565	9,356	38,505	34,945	3,560
Cooler	8,242	8,966	2,144	2,583	10,386	11,549	(1,163)
Beer	469,127	490,272	57,503	60,047	526,630	550,319	(23,689)
Total	533,803	553,801	84,395	87,988	618,198	641,789	(23,591)

Table 5: Sales by Location in \$'s							
\$'s	Iqaluit		Rankin Inlet		Total		Change (\$'s)
	2012-13	2011-12	2012-13	2011-12	2012-13	2011-12	
	\$000's	\$000's	\$000's	\$000's	\$000's	\$000's	\$000s
Spirits	1,102	1,151	608	633	1,710	1,784	(74)
Wine	478	430	151	150	629	580	49
Cooler	69	73	17	22	86	95	(9)
Beer	2,895	3,014	354	354	3,249	3,368	(119)
Total	4,544	4,668	1,130	1,159	5,674	5,827	(153)

Import Permits, Licensee Fees, Licenses, and Special Occasion Permits generated a total of \$709,585 in revenue. This is broken out by \$703,047 in Import Permit Fees and \$6,537 in Licensee Fees, License Renewal Fees and Special Occasion Permits

Table 6: Permit License Fees			
	2012-13	2011-12	Change
	\$000's	\$000's	\$000's
Import Fees	703	704	(1)
License & SOP	7	52	(45)
Total	710	756	(46)

Warehouse capacity in Iqaluit is consistently insufficient requiring a costly annual spring airlift resupply. Additional space was secured in October 2012 to negate such expenditures.

Total Revenue decreased by \$66,404 or 1.03% between 2012-2013 and 2011-2012. The Gross Margin increased by \$331,014 or 9.25%, and the Net Income increased by \$424,717 or 45.2% commission; 89,280 or 6.9% consolidated.

The sealift order which is placed during the winter for the following spring sealift is calculated based on current inventory levels, prior year sealift received, historical sales, projected sales for following year and input from individual customers and licensees. In addition, the capacity of the warehouses in Rankin Inlet and Iqaluit is also a factor in the estimated order.

NUNAVUT LIQUOR COMMISSION

Rankin Inlet, NU

CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended March 31, 2013

NUNAVUT LIQUOR COMMISSION

CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2013

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MANAGEMENT RESPONSIBILITY FOR FINANCIAL REPORTING


The management of the Nunavut Liquor Commission (NLC) is responsible for the integrity and objectivity of the consolidated financial statements and related note disclosures. The consolidated financial statements were prepared in accordance with Canadian Public Sector Accounting Standards and, consequently, include some amounts which are based on the best estimates and judgment of management.

In carrying out its responsibilities, management is responsible for the operation of financial systems and related internal controls to provide reasonable assurance that financial information presented by the management of NLC is reliable, assets are safeguarded, transactions are properly authorized, resources are managed efficiently and economically, and operations are carried out effectively in the attainment of corporate objectives, and that transactions are in accordance with the *Liquor Act* and the *Financial Administration Act* of Nunavut.

The external auditors, Lester Landau, conduct an independent examination, in accordance with Canadian auditing standards, and express their opinion on the consolidated financial statements. The external auditors have full and free access to financial management of NLC and meet when required.



Chris D'Arcy
Deputy Minister
Department of Finance



Marion Love
Director
Nunavut Liquor Management

November 28, 2013

LESTER LANDAU
Chartered Accountants

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INDEPENDENT AUDITORS' REPORT

To the Minister of Finance of the Government of Nunavut

We have audited the accompanying consolidated financial statements of the Nunavut Liquor Commission, which comprise the consolidated statement of financial position as at March 31, 2013 and March 31, 2012 and the consolidated statements of operations, changes in net financial debt, amount due to the Government of Nunavut, and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian Public Sector Accounting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Nunavut Liquor Commission as at March 31, 2013 and March 31, 2012 and its financial performance and its cash flows for the years then ended in accordance with Canadian Public Sector Accounting Standards.

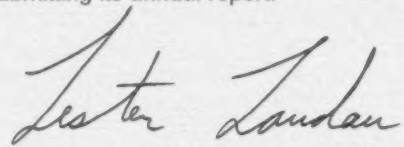
Report on Other Legal and Regulatory Requirements

As required by the *Financial Administration Act* of Nunavut we report that, in our opinion, these principles have been applied on a basis consistent with that of the preceding year.

We further report in accordance with Part IX of the *Financial Administration Act* of Nunavut and regulations, the *Liquor Act* of Nunavut and regulations, and the by-laws of the Nunavut Liquor Commission that, in our opinion, proper books of account have been kept by the Nunavut Liquor Commission, the consolidated financial statements are in agreement therewith and the transactions that have come under our notice have, in all significant respects, been within the statutory powers of the Nunavut Liquor Commission, except as disclosed below

Under section 100(1) of the *Financial Administration Act* of Nunavut, the Nunavut Liquor Commission is required to submit its annual report to the appropriate Minister no later than 90 days after the end of its financial year or an additional period, not exceeding 60 days, that the Minister of Finance may allow. The Nunavut Liquor Commission did not meet its statutory deadline for submitting its annual report.

Iqaluit, Nunavut
November 28, 2013

A handwritten signature in cursive script, reading "Lester Landau".

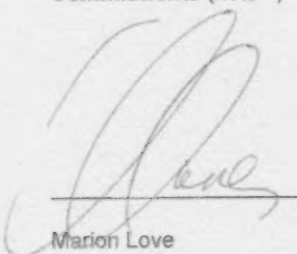
CHARTERED ACCOUNTANTS

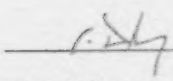
NUNAVUT LIQUOR COMMISSION

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	March 31 2013	March 31 2012
Financial Assets		
Cash	\$ 750	\$ 750
Accounts receivable	-	240,679
Inventories (note 3)	1,862,124	1,785,301
	1,862,874	2,026,730
Liabilities		
Accounts payable and accrued liabilities	452,090	512,682
Employee future benefits (note 4)	67,786	55,329
Bottle deposit outstanding	25,085	22,483
Deferred revenue	33,026	45,560
Due to Government of Nunavut	1,341,734	1,465,894
	1,919,721	2,101,948
Net Financial Debt	(56,847)	(75,218)
Non-Financial Assets		
Tangible capital assets (note 5)	56,847	75,218
	56,847	75,218
Accumulated Surplus	\$ -	\$ -

Commitments (note 7)


 Marion Love
 Director
 Nunavut Liquor Management


 Chris D'Arcy
 Deputy Minister of Finance
 Department of Finance

The accompanying notes and schedules are an integral part of these consolidated financial statements. 4

NUNAVUT LIQUOR COMMISSION

CONSOLIDATED STATEMENT OF OPERATIONS

For the year ended March 31,	2013	2012
Sales	\$ 6,406,820	\$ 6,473,224
Cost of Sales	2,470,368	2,867,786
Gross Margin	3,936,452	3,605,438
Other Income		
Import fees	703,047	703,637
Interest and other income	13,884	-
Licence, fees and permits	11,537	52,281
	4,664,920	4,361,356
Expenses		
Administration and operations (Schedule 1)	2,572,710	2,665,829
Enforcement and inspections (Schedule 2)	416,466	409,064
	2,989,176	3,074,893
Net Surplus	1,675,744	1,286,463
Accumulated Surplus, beginning of year	-	-
Accumulated Surplus, end of year	\$ -	\$ -

The accompanying notes and schedules are an integral part of these consolidated financial statements. 5

NUNAVUT LIQUOR COMMISSION

CONSOLIDATED STATEMENT OF CHANGES IN NET FINANCIAL DEBT

For the year ended March 31,	2013	2012
Net surplus for the year	\$ 1,675,744	\$ 1,286,463
Amortization of tangible capital assets	18,371	15,752
Disposal (acquisition) of tangible capital assets	-	(52,462)
Transfer of net surplus for the year to the Government of Nunavut	(1,675,744)	(1,286,463)
	(1,657,373)	(1,323,173)
Decrease (increase) in net financial debt	18,371	(36,710)
Net financial debt, beginning of year	(75,218)	(38,508)
Net financial debt, end of year	\$(56,847)	\$(75,218)

The accompanying notes and schedules are an integral part of these consolidated financial statements. 6

NUNAVUT LIQUOR COMMISSION

CONSOLIDATED STATEMENT OF AMOUNT DUE TO THE GOVERNMENT OF NUNAVUT

For the year ended March 31,	2013	2012
Balance, beginning of year	\$ 1,465,894	\$ 914,724
Net surplus for the year	1,675,744	1,286,463
Net transfer of funds to the Government of Nunavut	(1,799,904)	(735,293)
	\$ 1,341,734	\$ 1,465,894

NUNAVUT LIQUOR COMMISSION

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended March 31,	2013	2012
Cash Flows from Operating Activities		
Cash receipts from customers	\$ 7,362,849	\$ 6,998,952
Cash paid to suppliers and employees	(5,563,529)	(6,210,997)
Cash transferred to the Government of Nunavut (Net)	(1,799,904)	(735,293)
Interest received	584	-
Cash Provided by Operating Activities	-	52,662
Purchase of property and equipment	-	(52,462)
Cash Used in Investing Activities	-	(52,462)
Net Increase / (Decrease) in Cash	-	200
Cash, beginning of year	750	550
Cash, end of year	\$ 750	\$ 750

The accompanying notes and schedules are an integral part of these consolidated financial statements. 8

NUNAVUT LIQUOR COMMISSION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2013

1. Authority and Operations

The Nunavut Liquor Commission (NLC) - The Commission is established under Part II of the *Liquor Act (Nunavut)*.

The Commission is responsible for the operation of the liquor warehouses and the purchase and sale of liquor in Nunavut through the Liquor Revolving Fund of the Government of Nunavut. The Commission is authorized by the Legislative Assembly to receive free working capital advances from time to time not exceeding \$6,500,000 to finance its operations. The NLC did not request any working capital advances for the 2012 - 2013 fiscal year, while some expenses are paid directly from the Liquor Revolving Fund, other expenses are paid by the Government of Nunavut through the Consolidated Revenue Fund and are reimbursed from the Liquor Revolving Fund.

The Nunavut Liquor Enforcement and Inspections Division is responsible for ensuring that all distribution of liquor products is authorized by liquor licences and special occasion liquor permits issued under the *Liquor Act (Nunavut)*.

The Commission, in addition to its regular responsibilities, manages, directs and provides financial services to, and on behalf of, the Nunavut Liquor Enforcement and Inspections Division. As such, the Commission controls the aforementioned group. As a result of this control, the Nunavut Liquor Enforcement and Inspections Division is consolidated into the Nunavut Liquor Commission in preparing these consolidated financial statements. In addition, there are no related party transactions, except with the Government of Nunavut.

The attached Schedules of Income and Expenses segregate the financial results of the operations of the Nunavut Liquor Commission and the Nunavut Liquor Enforcement and Inspections Division on a stand-alone basis.

2. Significant Accounting Policies

(a) Consolidated Financial Statements

NLC's consolidated financial statements are prepared in accordance with Canadian Public Sector Accounting Standards.

(b) Basis of Consolidation

The consolidated financial statements include the assets and liabilities and results of operations of the Nunavut Liquor Commission and the Nunavut Liquor Enforcement and Inspections Division, over which the Nunavut Liquor Commission exhibits control by managing and directing the Nunavut Liquor Enforcement and Inspections Division. There were no inter-entity balances and transactions which had to be eliminated in determining the consolidated figures.

NUNAVUT LIQUOR COMMISSION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2013

2. Significant Accounting Policies (continued)

(c) Measurement Uncertainty

The preparation of consolidated financial statements in accordance with Canadian Public Sector Accounting Standards requires the use of estimates and assumptions that affect the amounts of assets, liabilities, revenues and expenses reported in the consolidated financial statements. By their nature, these estimates are subject to measurement uncertainty. The effect on the consolidated financial statements of changes to such estimates and assumptions in future periods could be significant, although, at the time of preparation of these consolidated financial statements, management believes the estimates and assumptions to be reasonable. Significant management estimates include the liability for bottle deposit outstanding, services received without charge, the provision for employee future benefits and the useful lives of equipment.

(d) Cash and cash equivalents

Cash and cash equivalents are comprised of a small cash float that is maintained by NLC. All sales and other cash receipts of NLC are deposited to the Liquor Revolving Fund. While some expenses of NLC are paid directly from the Liquor Revolving Fund, other expenses are paid by the Government of Nunavut through the Consolidated Revenue Fund and are reimbursed from the Liquor Revolving Fund.

All sales and other cash receipts of the Nunavut Liquor Enforcement are deposited into the Government of Nunavut Consolidated Revenue Fund. All expenses of the Nunavut Liquor Enforcement are paid by the Government of Nunavut through the Consolidated Revenue Fund.

(e) Inventories

Inventories consist of alcohol products valued at the lower of cost or net realizable value on a first-in, first-out basis.

(f) Accounts Receivable

Accounts receivable are valued at the lower cost and net recoverable value. Valuation allowances, if necessary, are recorded based on all circumstances in existence at the balance sheet date that are known at the date these consolidated financial statements are prepared.

NUNAVUT LIQUOR COMMISSION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2013

2. Significant Accounting Policies (continued)

(g) Tangible Capital Assets

Tangible Capital Assets are initially recorded at cost, and are subsequently amortized to expense. Amortization expense is recognized on a declining balance basis over the estimated useful life of the assets. In the year of purchase, amortization is applied at half the normal rate. The rates are as follows:

Computer hardware	30%
Computer software	100%
Furniture and equipment	20%

(h) Accounts Payable and Accrued Liabilities

Accounts payable and accrued liabilities are recorded as incurred. Annual, in lieu and optional leave liabilities have been included in accrued liabilities.

(i) Bottle Deposit Liability

The bottle deposit liability is estimated based on the last three months of sales, to allow time for licensees and clients to return recyclables for refund.

(j) Deferred Revenue

Deferred revenue includes revenues received in advance of goods being provided or services being performed with stipulations that meet the definition of a liability per Section PS 3200. When stipulations are met, deferred revenue is recognized as revenue in the fiscal year in a manner consistent with the circumstances and evidence used to support the initial recognition of the revenue received as a liability.

NUNAVUT LIQUOR COMMISSION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2013

2. Significant Accounting Policies (continued)

(k) Employee Future Benefits

Non-pension Benefits

Under the conditions of employment, eligible employees may earn non-pension benefits for severance, retirement and removal based on years of service. The benefits are paid upon resignation, retirement or death of an employee. The expected cost of providing these benefits is recognized as employees render service and has been determined based on management's assumptions and best estimates. The NLC provides severance, retirement and removal benefits to eligible employees based on years of service, final salary and community of residence.

Pension Benefits

Eligible employees of the NLC participate in the Public Service Pension Plan administered by the Government of Canada. The employees and NLC contribute to the cost of the Plan. The NLC's contributions to the Plan reflect the full cost of the employer contributions. This amount is currently based on a multiple of the employee's required contributions and may change from time to time depending on the experience of the Plan. The NLC contributed at a rate of 1.64 times the employees contribution for the calendar year of 2013 (1.74 times for the calendar year of 2012). These contributions are charged to expenditures on a current year basis, and represent the total pension obligation of the NLC. NLC is not obligated under present legislation to make contributions to actuarial deficiencies of the Public Service Pension Plan.

(l) Revenue Recognition

Revenue from sales of liquor and import fees are recorded when the customer places their order, it has been paid in full and the products have been shipped.

Revenue from licence fees and permits are recognized on a straight-line basis over the term of the licence. Licences do not exceed one year.

(m) Expenses

Expenses are recorded on an accrual basis. While some expenses of NLC are paid directly from the Liquor Revolving Fund, other expenses are paid by the Government of Nunavut through the Consolidated Revenue Fund and are reimbursed from the Liquor Revolving Fund.

All expenses of the Nunavut Liquor Enforcement are paid by the Government of Nunavut through the Consolidated Revenue Fund without reimbursement.

(n) Services Provided Without Charge

There are no longer any services provided without charge to the NLC.

NUNAVUT LIQUOR COMMISSION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2013

2. Significant Accounting Policies (continued)

(o) Financial Instruments

The NLC initially measures its financial assets and financial liabilities at fair value adjusted by, in the case of a financial instrument that will not be measured subsequently at fair value, the amount of transaction costs directly attributable to the instrument.

The NLC subsequently measures all its financial assets and financial liabilities at amortized cost, except for derivatives and equity securities quoted in an active market, which are subsequently measured at fair value.

Financial assets measured at amortized cost include cash and cash equivalents and accounts receivable.

Financial liabilities measured at amortized cost include accounts payable and accrued liabilities, employee future benefits, bottle deposit outstanding and amounts due to the Government of Nunavut.

(p) Due to the Government of Nunavut

The *Liquor Act (Nunavut)* requires the NLC to present the amount owing to the Government of Nunavut. This is calculated by summing the following amounts: The Balance owing at the end of the prior year, the Net Surplus for the year, less the net funds transferred to the Government of Nunavut during the year. The ending balance is normally carried forward to be funded from future year's Net Surplus.

This balance is a non-interest bearing liability.

3. Inventories

	March 31 2013	March 31 2012
Spirits	\$ 672,264	\$ 697,561
Wine	363,125	342,017
Beer	799,212	718,132
Coolers and ciders	27,523	27,591
	<u>\$ 1,862,124</u>	<u>\$ 1,785,301</u>

NUNAVUT LIQUOR COMMISSION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2013

4. Employee Future Benefits

Non-pension Benefits

NLC provides non-pension benefits to its employees for severance and removal costs. As at March 31, 2013 severance and removal costs total \$10,813 (\$9,144 - 2012).

Pension Plan

NLC and all eligible employees contribute to the Public Service Pension Plan (PSPP). This pension plan provides benefits based on years of service and average earnings at retirement. The benefits are fully indexed to the increase in the Consumer Price Index. Contributions during the year were as follows:

	2013	2012
Employer's contributions	\$ 120,538	\$ 135,565
Employees' contributions	\$ 70,459	\$ 72,850

The Employee Future Benefits accrued by the NLC for the current year relate to accrued leave benefits.

NUNAVUT LIQUOR COMMISSION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2013

5. Tangible Capital Assets

			2013	2012
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Computer hardware	\$ 53,669	\$ 43,899	\$ 9,770	\$ 16,372
Computer software	50,777	50,777	-	-
Furniture and equipment	135,769	88,692	47,077	58,846
	\$ 240,215	\$ 183,368	\$ 56,847	\$ 75,218

6. Expenses by Object

	March 31 2013	March 31 2012
Salaries and benefits	\$ 1,623,240	\$ 1,684,842
Rent	422,516	401,516
Bottle deposits refund	189,365	196,087
Professional fees	294,822	262,518
Repairs and maintenance	72,306	125,139
Contractor fees	95,070	105,299
Office	69,171	54,482
Bank charges and interest	74,481	77,079
Utilities	68,993	77,082
Travel	17,584	23,371
Communication	37,326	36,743
Plebiscite expenses	5,931	10,041
Amortization	18,371	15,752
Training and development	-	2,534
Advertising and promotion	-	2,408
	\$ 2,989,176	\$ 3,074,893

NUNAVUT LIQUOR COMMISSION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2013

7. Commitments

There is a ten year lease effective April 1, 2004, expiring April 1, 2014, for warehouse and office premises in Rankin Inlet. A five year lease agreement, effective April 1, 2012, and expiring April 1, 2017, for the liquor warehouse in Iqaluit valued at \$120,000 per year is also in place. Additional warehouse space was obtained as of October 1, 2012 on a monthly basis for \$3,500 per month. The minimum annual lease payments are as follows:

Fiscal year ending March 31	Total
2014	\$ 401,516
2015	120,000
2016	120,000
2017	120,000
	<hr/>
	\$ 761,516

8. Related Party Transactions

The NLC is related in terms of common ownership to all of the Government of Nunavut created departments, agencies and Crown corporations. The NLC enters into transactions with these entities in the normal course of business at normal trade terms. All sums collected by the NLC are deposited directly into a Government bank account, and the Government of Nunavut pays for all of the expenses of the NLC. Expenses include the following services provided by the Government of Nunavut at cost and Qulliq Energy Corporation at normal trade terms, during the normal course of business:

	2013	2012
Government of Nunavut:		
Communications	\$ 9,121	\$ 9,121
Office	24,964	24,064
Rent (note 7)	141,000	120,000
Repairs and maintenance	64,942	63,799
Property taxes	28,831	28,136
Qulliq Energy Corporation		
Utilities (electricity)	12,136	15,071
	<hr/>	<hr/>
	\$ 280,994	\$ 260,191

NUNAVUT LIQUOR COMMISSION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2013

9. Capital Management

NLC's capital is cash, it has no Contributed Equity. NLC is authorized by the Legislative Assembly to receive free working capital advances from time to time not exceeding \$6,500,000 to finance its operations. The NLC did not request any working capital advance for the 2012-13 fiscal year.

All revenues collected by the NLC are deposited into a bank account controlled by the Government of Nunavut. As the Government of Nunavut controls all cash deposited by the NLC, the Government of Nunavut pays for all the expenses of the NLC.

10. Financial Instruments and Risk Management

Credit Risk - Credit risk refers to the potential that a customer or counter party to a financial instrument will fail to discharge its contractual obligations, and arises principally from the NLC's receivables from customers. NLC has minimum exposure to credit risk from customers as collection is made prior to sales. Where necessary, the NLC performs ongoing credit evaluations of new and existing customers' financial condition and reviews the collectibility of its trade and other accounts receivable in order to mitigate any possible credit losses.

Interest Rate Risk - Interest rate risk is the risk that the fair values of future cash flows from a financial instrument will fluctuate because of changes to market interest rates. The NLC is not exposed to interest rate risk because the NLC has no investments or debt.

Liquidity Risk - Liquidity risk is the risk that the NLC will not be able to meet its financial obligations as they fall due. The NLC is not exposed to liquidity risk, although some expenses of NLC are paid directly from the Liquor Revolving Fund, others are paid directly by the Government of Nunavut through the Consolidated Revenue Fund and reimbursed from the Liquor Revolving Fund.

Foreign Currency Risk - The NLC is not exposed to risk arising from fluctuation in foreign exchange rates since it enters into sales and purchase transactions denominated in Canadian currency.

Unless otherwise noted, it is management's opinion that NLC is not exposed to other significant interest, currency or credit risks arising from these financial instruments.

11. Comparative Figures

Certain figures presented for comparative purposes have been reclassified to conform with the current year's presentation.

NUNAVUT LIQUOR COMMISSION

SCHEDULE 1 - NUNAVUT LIQUOR COMMISSION

For the year ended March 31,	2013	2012
Sales	\$ 6,406,820	\$ 6,473,224
Cost of Sales	2,470,368	2,867,786
Gross Margin	3,936,452	3,605,438
Other Income		
Import fees	-	-
Interest and other income	584	-
Licence, fees and permits	-	-
	3,937,036	3,605,438
Expenses		
Salaries and benefits	1,341,068	1,409,975
Rent	422,516	401,516
Bottle deposits refund	189,365	196,087
Professional fees	294,822	262,518
Repairs and maintenance	72,306	125,139
Office	59,998	51,362
Bank charges and interest	67,756	73,101
Property taxes and utilities	68,993	77,082
Travel	2,843	14,374
Communication	34,672	33,981
Amortization	18,371	15,752
Training and development	-	2,534
Advertising and promotion	-	2,408
	2,572,710	2,665,829
Revenue in Excess of Expenses	\$ 1,364,326	\$ 939,609

NUNAVUT LIQUOR COMMISSION

SCHEDULE 2 - NUNAVUT LIQUOR ENFORCEMENT AND INSPECTIONS DIVISION

For the year ended March 31,	2013	2012
Sales	\$ -	\$ -
Cost of Sales	-	-
Gross Margin	-	-
Other Income		
Import fees	703,047	703,637
Interest and other income	13,300	-
Licence, fees and permits	11,537	52,281
	727,884	755,918
Expenses		
Salaries and benefits	282,172	274,867
Contractor fees	95,070	105,299
Plebiscites expenses	5,931	10,041
Travel	14,741	8,997
Bank charges and interest	6,725	3,978
Office	9,173	3,120
Communication	2,654	2,762
	416,466	409,064
Revenue in Excess of Expenses	\$ 311,418	\$ 346,854